



September 2016

TAX DEBT COLLECTION

IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection

Accessible Version

Why GAO Did This Study

IRS's Field Collection program is where IRS revenue officers make in-person contact with noncompliant individuals and business officials to enforce tax return filing and payment requirements. Sound processes for selecting cases are critical to maintain taxpayer confidence in the tax system and use federal resources efficiently. GAO was asked to review the processes IRS uses to select collection cases for potential enforcement action.

This report (1) describes the Field Collection program's automated and manual processes for prioritizing and selecting cases and (2) assesses how well Field Collection case selection processes support the collection program's mission, including applying tax laws "with integrity and fairness to all." To address these objectives, GAO reviewed IRS documents and conducted interviews with IRS officials knowledgeable about the case selection processes, including a series of focus groups with IRS Field Collection managers. GAO evaluated how well the processes adhere to relevant federal standards for internal control.

What GAO Recommends

GAO is making five recommendations, including that IRS: develop and document objectives in clear and measurable terms, including fairness; provide guidance for group managers' use of judgment in selecting cases; and develop procedures to assess automated and manual processes. IRS agreed with the recommendations and outlined planned steps to address them.

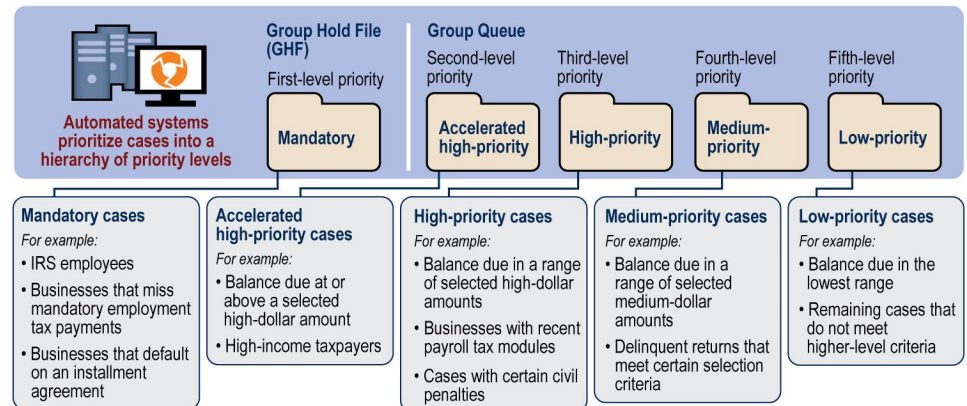
TAX DEBT COLLECTION

IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection

What GAO Found

The Internal Revenue Service (IRS) uses automated processes to prioritize cases to be potentially selected for in-person contact to resolve a tax collection issue (see figure), but group managers in the Field Collection program manually select the cases to assign to revenue officers. For example, when reviewing cases, group managers consider characteristics of the revenue officer available—such as current workload—and case characteristics—such as potential collectability—when deciding whether to assign a case.

IRS Field Collection Case Prioritization



Source: GAO analysis of Internal Revenue Service information. | GAO-16-787

GAO found weaknesses in the Field Collection program's internal controls for case selection, including:

Program objectives are not clearly defined and communicated. IRS has not sufficiently developed and communicated specific and measurable program objectives, including fairness. GAO heard different interpretations of program objectives and the role of fairness from focus group participants. Without clearly defined and clearly understood objectives aligned to its mission, Field Collection management does not have reasonable assurance that case selection processes support achievement of that mission. Further, the lack of clearly articulated objectives undercuts the effectiveness of Field Collection management's efforts to measure performance and assess risks.

Documentation and assessment of case selection risks are inadequate. The Field Collection program's automated prioritization and decision support systems are control procedures that may guide staff to reduce risks. However, the Field Collection program does not have documented procedures for periodically reviewing automated aspects of case selection. Further, the Field Collection program lacks sufficient guidance for group managers to exercise judgment in case selection. These deficiencies limit the Field Collection management's ability to provide reasonable assurance that selection decisions effectively support achievement of IRS's mission.

Contents

Letter	1
Background	3
Automated Processes First Prioritize Collection Cases, then Group Managers Manually Select Cases Balancing Various Factors	8
Weaknesses in Field Collection Case Selection Processes and Procedures Impact Their Ability to Support the Collection Program's Mission	13
Conclusions	23
Recommendations for Executive Action	24
Agency Comments and Our Evaluation	24

Appendix I: Objectives, Scope, and Methodology	27
Appendix II: Comments from the Commissioner of Internal Revenue	30
Appendix III: GAO Contact and Staff Acknowledgments	36
Appendix IV: Accessible Data	37
Agency Comment Letter	37
Data Tables	43

Tables	
Table 1: Snapshot of Field Collection Cases by Priority Level as of March 10, 2016	13
Table 2: GAO's Assessment of the IRS Collection Program's Documentation of Program and Case Selection Objectives	15
Table 3: GAO's Assessment of the IRS Collection Program's Definition of Fairness	17
Table 4: Snapshot Data as of March 10, 2016 Comparing Certain Characteristics of Assigned and Unassigned Cases	19
Table 5: Examples of Data Elements that Could Support Potential Performance Measures	20
Data Table for Figure 2: IRS Field Collection Full-Time Equivalents, fiscal years 2009 through 2015	43
Data Table for Figure 3: Case Closures and End of Year Field Collection Inventory, Fiscal Years 2009 through 2015	43
Accessible Text for Figure 5: Illustrative Examples of IRS Field Collection Group Manager Case Selection Considerations	44

Figures

Figure 1: IRS Collection Process	4
Figure 2: IRS Field Collection Full-Time Equivalents, fiscal years 2009 through 2015	6
Figure 3: Case Closures and End of Year Field Collection Inventory, Fiscal Years 2009 through 2015	8
Figure 4: IRS Field Collection Case Prioritization	9
Figure 5: Illustrative Examples of IRS Field Collection Group Manager Case Selection Considerations	11

Abbreviations

ACS	Automated Collection System
ERM	Enterprise Risk Management
FTD	federal tax deposit
FTE	full-time equivalents
GS	General Schedule
IDS	Inventory Delivery System
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
SB/SE	Small Business/Self-Employed Division
TIGTA	Treasury Inspector General for Tax Administration

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



September 13, 2016

The Honorable Kevin Brady
Chairman
Committee on Ways and Means
House of Representatives

The Honorable Peter Roskam
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

The Internal Revenue Service's (IRS) collection program is a key part of its enforcement strategy to address the tax gap—the difference between taxes owed and paid on time—and to ensure taxpayers meet tax filing and payment requirements. IRS estimated that for tax years 2008 to 2010, the average annual \$458 billion gross tax gap included \$39 billion due in delinquent tax liabilities and \$32 billion due in unfiled tax returns.¹ The Field Collection program—where revenue officers contact noncompliant individuals and business officials face-to-face—is a key phase in IRS's three-phase collection process.² Field Collection is often the first enforcement stop for higher-priority cases not resolved by sending notices and the last chance to enforce compliance for lower-priority cases unresolved through automated collection efforts. Without sound methods for selecting cases for enforcement action, IRS risks losing public confidence and not efficiently achieving its mission and strategic goals.

¹The remaining portion of the gross tax gap, \$387 billion, comes from underreporting, or not reporting the full tax liability on a timely filed return. IRS estimated that it will eventually recover about 11 percent (\$52 billion) of the gross tax gap through late payments and enforcement actions, including collection. See GAO's key issues page for additional information on the tax gap: http://www.gao.gov/key_issues/tax_gap/issue_summary. IRS, *Tax Gap Estimates for Tax Year 2008-2010*, (Washington, D.C.: Apr. 2016).

²The other collection phases are the (1) notice phase for sending notices to taxpayers about their unpaid tax debts or delinquent returns to prompt compliance and (2) Automated Collection System (ACS) phase for making telephone contact, filing liens, or levying financial assets.

You asked us to review the processes IRS uses to select collection cases for potential enforcement action. This work focuses on the Field Collection program.³ Our objectives were to (1) describe the Field Collection program’s automated and manual processes for prioritizing and selecting cases and (2) assess how well Field Collection case selection processes support the collection program’s mission, including applying tax laws “with integrity and fairness to all.”

To describe the Field Collection program selection processes, we reviewed IRS documents and interviewed knowledgeable IRS officials on the role of Field Collection systems and staff in prioritizing and selecting cases to assign to revenue officers for collection. We also analyzed data in IRS’s Field Collection inventory management system from March 10, 2016.⁴ These data allowed us to compare assigned and unassigned Field Collection cases at the time.

To assess the selection process’s support of the collection program’s mission, including applying tax laws with integrity and fairness to all, we evaluated how well the process adhered to selected federal standards for internal control, which are among the most relevant to ensuring mission achievement.⁵ These standards include defining program objectives in clear and measurable terms. Defining objectives is an internal control foundation for other standards to assure that program operations effectively address risks to program objectives and support the

³This is the sixth in a series of GAO reviews of internal controls governing case selection decisions across a range of IRS enforcement programs, including assessments of the use of automated processes and individual discretion in selecting cases, including two reports on collection at the enterprise and ACS levels. GAO, *IRS Return Selection: Certain Internal Controls for Audits in the Small Business and Self-Employed Division Should Be Strengthened*, [GAO-16-103](#) (Washington, D.C.: Dec. 16, 2015), *IRS Return Selection: Wage and Investment Division Should Define Audit Objectives and Refine Other Internal Controls*, [GAO-16-102](#) (Washington, D.C.: Dec. 17, 2015), *IRS Case Selection: Automated Collection System Lacks Key Internal Controls Needed to Ensure the Program Fulfills Its Mission*, [GAO-15-744](#) (Washington, D.C.: Sept. 10, 2015), *IRS Case Selection: Collection Process Is Largely Automated, but Lacks Adequate Internal Controls*, [GAO-15-647](#) (Washington, D.C.: July 29, 2015), and *IRS Examination Selection: Internal Controls for Exempt Organization Selection Should Be Strengthened*, [GAO-15-514](#) (Washington, D.C.: July 13, 2015).

⁴IRS’s primary Field Collection inventory management system used to support and guide case selection is known as ENTITY.

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

achievement of objectives over time. We also spoke to group and territory managers in a series of focus groups to discuss their role in the Field Collection program's case selection processes and procedures. We compared these responses with the stated processes and procedures in Field Collection documentation.

We determined that the data used in our analysis were reliable for the purposes of this review. Our data reliability assessment included reviewing relevant documentation, interviewing knowledgeable IRS officials, and reviewing the data to identify obvious errors or outliers. For additional details on our scope and methodology, see appendix I.

We conducted this performance audit from August 2015 to September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

As stated in IRS's fiscal year 2016 collection program letter, the collection program's mission is to collect delinquent taxes and secure delinquent tax returns through the fair and equitable application of the tax laws, including the use of enforcement tools when appropriate and providing education to taxpayers to facilitate future compliance.⁶

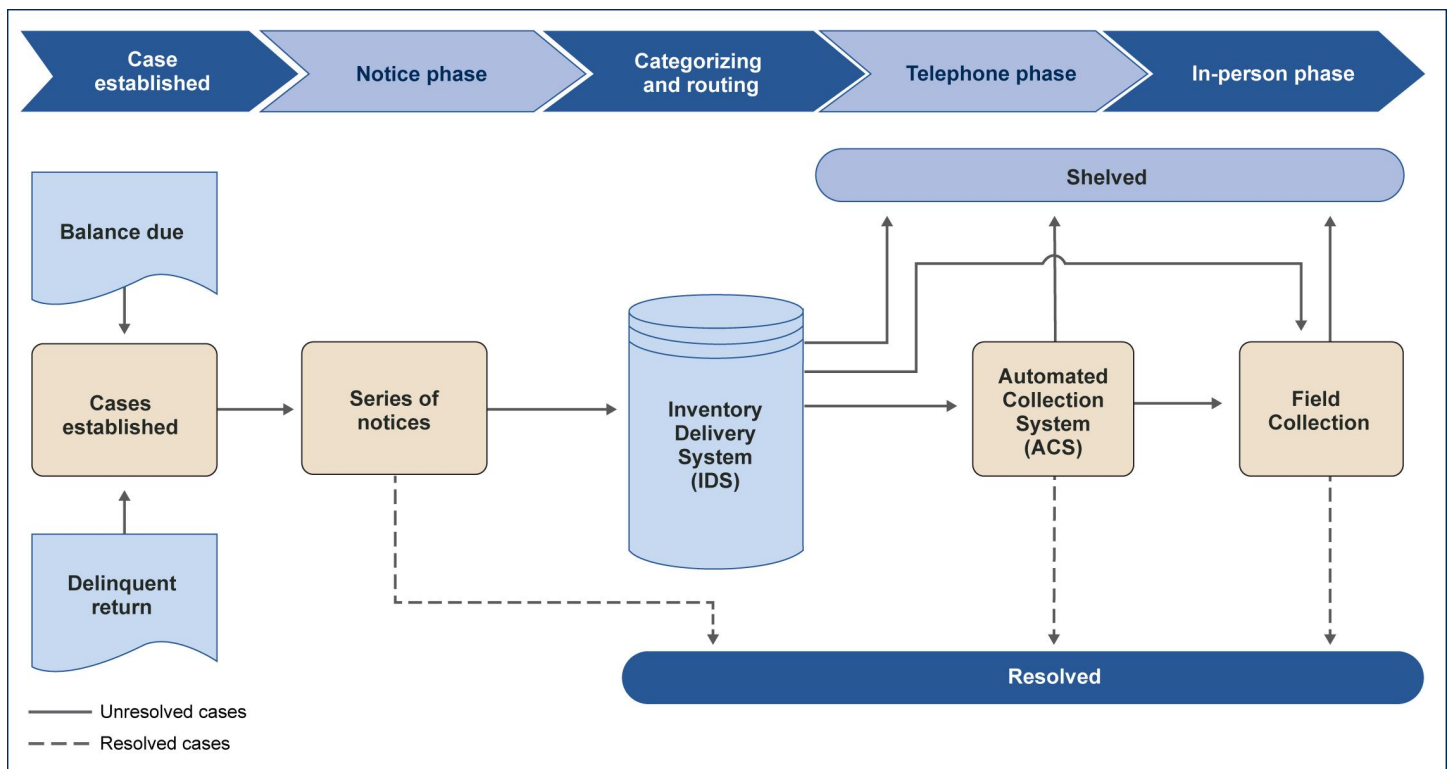
As we have previously reported, IRS's collection program largely uses automated processes to categorize unpaid tax or unfiled tax return cases and send them to a collection phase to be potentially selected for collection activities.⁷ The automated Inventory Delivery System (IDS) categorizes and routes cases based on many factors, such as type of tax

⁶The collection program letter includes information on the program's mission, prior year accomplishments, and actions planned for the fiscal year as aligned with IRS's strategic goals. As set forth in the IRS Strategic Plan for fiscal years 2014 to 2017, IRS's mission is to "provide America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all." See IRS, *FY16 Program Letter -- Collection* (Washington, D.C.: Dec. 10, 2015) and IRS, *Strategic Plan: FY2014-2017*, Publication 3744 (Washington, D.C.: June, 2014).

⁷[GAO-15-647](#).

and amount owed. As shown in figure 1, IDS analyzes cases to identify and filter out cases that should not be pursued further (shelved) and determine whether cases should be sent to either the telephone phase (the Automated Collection System, or ACS) or the in-person phase (Field Collection) for potential selection.⁸

Figure 1: IRS Collection Process



Source: GAO analysis of Internal Revenue Service data. | GAO-16-787

⁸Shelved cases are removed from the collection inventory for potential selection for various reasons. For example, IDS initially shelves cases because of statistical model analysis results. After being sent to ACS or Field Collection for potential selection, cases may be shelved due insufficient resources to work them and their lower priority compared to other available cases. Taxpayers whose cases are shelved continue to receive periodic notices about the unpaid tax debt or the missing return.

Through IDS routing, the Field Collection program generally makes the first effort to enforce filing and payment requirements for higher-priority cases that are not resolved by sending notices.⁹ The Field Collection program is also used to enforce compliance for lower-priority cases left unresolved by ACS's efforts.

The Field Collection program is organized to make direct contact with individuals and business officials to enforce tax filing and payment requirements. The program divides the United States into seven areas.¹⁰ Each area is run by an area director who reports to the Director of Field Collection. Each area is typically divided into six to eight territories, each headed by a territory manager. Each territory, on average, contains six groups that are run by group managers. Group managers directly oversee an average of eight revenue officers.

Cases sent to the Field Collection program for potential selection are generally identified by the taxpayer's ZIP code and aligned with Field Collection program groups around the nation, each of which works cases in a set of ZIP codes in its geographic proximity. Group managers select and assign collection cases to revenue officers for resolution. Revenue officers are generally assigned to work cases in designated ZIP codes handled by the group. Cases are removed from Field Collection's inventory of cases for potential selection when they

- are assigned to a revenue officer for resolution,¹¹
- are shelved; or

⁹IDS initially sends most cases (about 70 percent) to ACS and about 25 percent to the Field.

¹⁰There are eight Field collection areas; the eighth is for international cases.

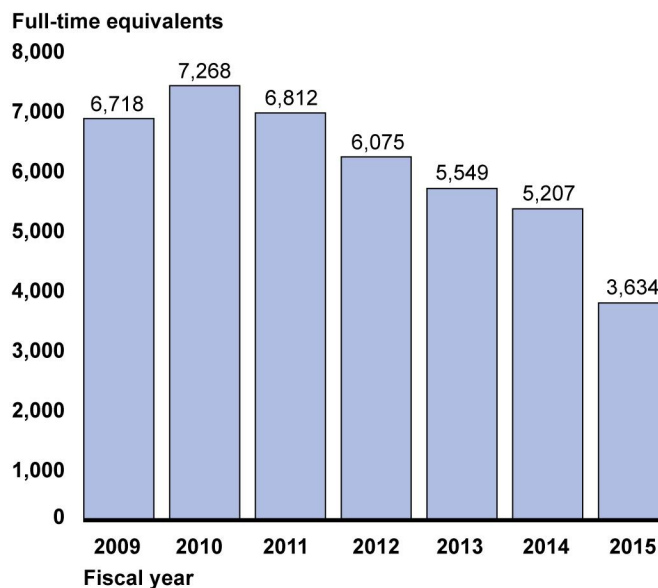
¹¹Revenue officer action to resolve a case can result in delinquent returns being filed or collection of some or all of the unpaid tax debt, such as through levy of financial assets, filing a lien against the taxpayer's property, or the taxpayer making full or partial payment by entering into an installment agreement or offer-in-compromise. The case may also be suspended from further immediate collection action for several reasons, such as the revenue officer determining that the debt is currently not collectible.

- expire under statute of limitations laws.¹²

Unless cases sent to the Field Collection program are assigned to a revenue officer for collection work, delinquent taxpayers may not receive contact from IRS to attempt to resolve the delinquency aside from annual reminder notices.

Since 2010, Field Collection staff have been reduced by 50 percent from a 2010 high of 7,268 full-time equivalents (FTE), as shown in figure 2.¹³

Figure 2: IRS Field Collection Full-Time Equivalents, fiscal years 2009 through 2015



Source: GAO analysis of Internal Revenue Service data. | GAO-16-787

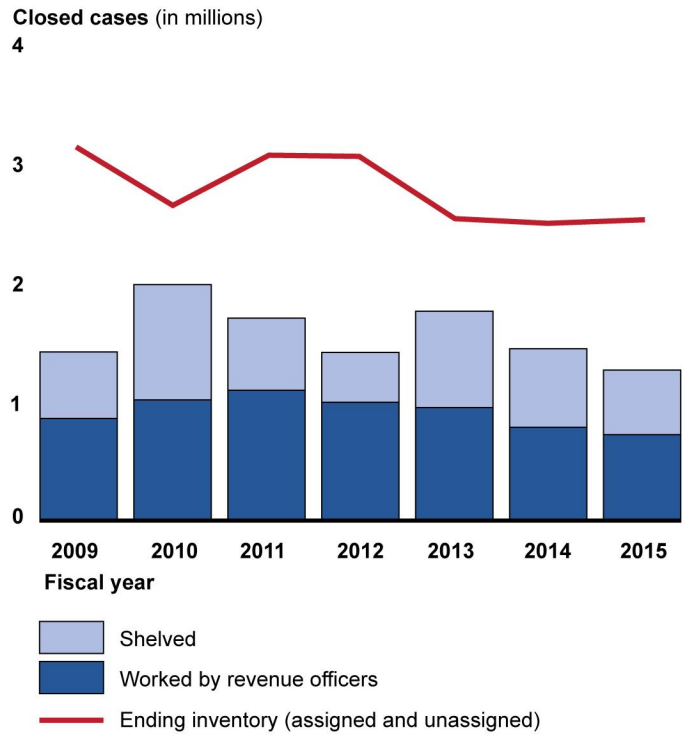
¹²Cases awaiting potential selection may be removed from the Field's inventory in other ways, including by being sent to ACS for potential selection, resolved by the taxpayer making payment, or suspended due to a change in status (such as taxpayer bankruptcy or other litigation). In general, for taxpayers, including those who file a late return, the statute of limitation for assessment is 3 years from the due date of the return or the date filed, whichever is later. 26 U.S.C. § 6501. There is a 10-year statute of limitation for the IRS to collect unpaid tax debt from the year the debt was assessed. 26 U.S.C. § 6502. According to IRS officials, unresolved delinquent return cases may be systematically removed from the Field Collection program's inventory for potential selection after 8 years.

¹³According to officials, the attrition rate since 2010 is 38 percent excluding revenue officers that do not work delinquent tax return and balance due cases.

Field Collection revenue officers have consistently closed fewer cases each year since a high in fiscal year 2011, as shown in figure 3.¹⁴ In fiscal year 2015, more than 40 percent of closed cases were closed by shelving rather than a revenue officer working the case. The figure also shows that the year-end Field Collection inventory and queue has generally remained stable in recent years.

¹⁴According to Collection officials, case closure figures for delinquent tax return and balance due cases do not reflect a significant portion of the work done by revenue officers, especially federal tax deposit (FTD) alerts. FTD alerts involve revenue officers contacting officials for businesses that have missed making expected employment tax deposits or made deposits in amounts less than expected. According to Field Collection officials, revenue officers work these “early alerts” to keep businesses in compliance, which may prevent businesses from entering the inventory as more significant delinquent tax return and balance due cases later.

Figure 3: Case Closures and End of Year Field Collection Inventory, Fiscal Years 2009 through 2015



Source: GAO analysis of Internal Revenue Service data. | GAO-16-787

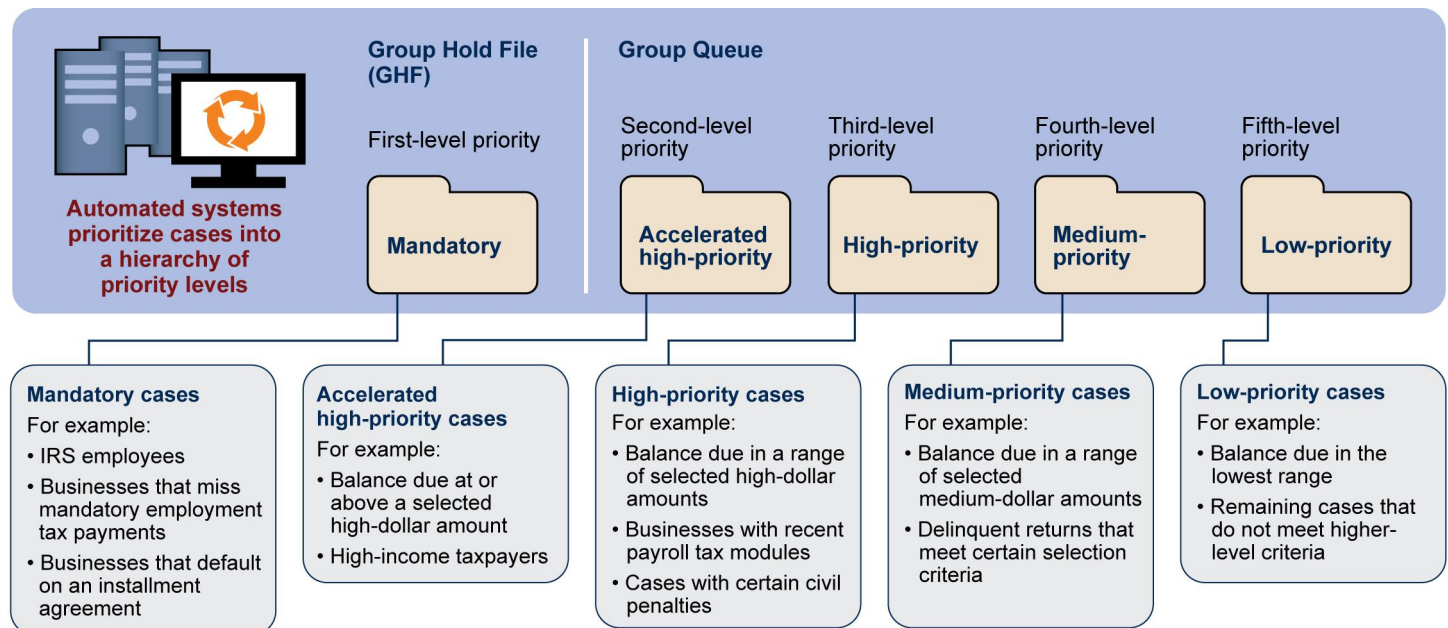
Note: Original data are counts of modules. A module is a record of tax data for a specific taxpayer covering one tax period, such as a year or quarter. For this graphic, module counts were divided by 2.2 which was the average number of modules per case in fiscal year 2014 to display the data as case counts.

Automated Processes
 First Prioritize
 Collection Cases,
 then Group Managers
 Manually Select
 Cases Balancing
 Various Factors

Automated Systems Assign Priority Levels Based on Collection Case Characteristics

Automated systems classify collection cases into a hierarchy of five priority levels, as shown in figure 4.

Figure 4: IRS Field Collection Case Prioritization



Source: GAO analysis of Internal Revenue Service information. | GAO-16-787

Note: For purposes of this report “mandatory case” refers to cases in the group hold file, which generally must be assigned within a certain time period or Field Collection staff have to document why the case was not assigned. Balance due ranges or income are not provided in specific dollar amounts because IRS considers that information sensitive for tax administration purposes.

The priority levels are divided into two files—the group hold file and the group queue. Collection cases in the group hold file are generally considered the highest priority and are the first cases group managers evaluate for assignment. These cases are considered mandatory because group managers typically are required to evaluate whether to assign these cases within 45 days to the first available and qualified revenue officer or document why the cases were not assigned by the deadline or were removed from the hold file. Unlike collection cases in other priority levels, group hold file cases require immediate evaluation for assignment or an explanation if they are not assigned. Group managers must even assign some mandatory cases in less than 45 days. For example, collection cases involving missed or lower-than-expected

employment tax payments—known as federal tax deposit alerts within IRS—should be assigned within 7 days. Other mandatory collection cases include those involving IRS employees, transfers from other areas within Field Collection, and current cases where additional delinquent taxes have been assessed.

The group queue contains the other four priority levels' collection cases—accelerated high, high, medium, and low. The automated system assigns these priorities based on a number of criteria including the balance due amount, return type, tax year of the case, and last return amount. Accelerated high priority collection cases—second priority in selection consideration—are cases that IRS has determined are among the most important to pursue and group managers are generally expected to assign them from the queue first. Characteristics of cases in this category might include those with balances due greater than a selected high-dollar amount or individual delinquent taxpayers with income greater than a selected high amount.¹⁵ Non-accelerated high priority cases are third priority in selection consideration. Characteristics of these cases may include businesses with recent unpaid employment tax liabilities and those with balances due that fall into a range of selected high-dollar amounts. Characteristics of collection cases designated medium and low priority may include balances due within, or less than, a range of relatively moderate dollar amounts (in comparison to high priority cases) and certain case age parameters that IRS views as lower priority. Characteristics of low-priority cases include remaining cases that do not meet the criteria of higher-priority levels.

Group Managers Balance a Number of Considerations When Selecting Field Collection Cases

IRS's automated systems send new cases weekly to group managers' hold files and queues. Group managers we met with explained that they sequentially review the hold file and queue cases at each priority level to take into account several case selection considerations.¹⁶ These considerations can include revenue officers' availability, including their geographic proximity to the taxpayer's location, since Field Collection

¹⁵We are not reporting balance due ranges or income in specific dollar amounts because IRS considers that information sensitive for tax administration purposes.

¹⁶The order in which group managers consider cases is not rigid and they may consider cases in more than one priority level at a time. For example, according to IRS officials, group managers should first consider both hold file cases that meet certain assignment criteria and accelerated high-priority cases.

activities often involve face-to-face interaction. Group managers also consider the characteristics of the cases available for assignment, such as whether a business is still active or operating thus increasing the potential for collectability (see figure 5).

Figure 5: Illustrative Examples of IRS Field Collection Group Manager Case Selection Considerations



Source: GAO analysis of Internal Revenue Service information. | GAO-16-787

The automated systems determine the anticipated difficulty and appropriate category of revenue officer that can be assigned to a case based on the queue priority level and other characteristics of the case, such as complexity. These categories are based on the revenue officer's pay scale, which is aligned with the federal General Schedule (GS) pay system. Revenue officers in the Field Collection program generally are

GS-9, 11, 12, or 13. This approach generally ensures that higher paid revenue officers with more experience are assigned the more challenging or complex cases.

In most instances, group hold file and accelerated high-priority cases all must be assigned as soon as a revenue officer with the appropriate characteristics is available. However, IRS guidance provides group managers discretion to pass over these cases and select lower-priority cases when there are justifiable reasons or business needs. For example, a group manager can bypass an accelerated high-priority case when, in the group manager's judgment, assignment of that case at the time would be too burdensome based on the size and complexity of the revenue officer's current caseload or when a revenue officer's current caseload has reached inventory levels prescribed in the Internal Revenue Manual.

On March 10, 2016, when we received a snapshot of all assigned and unassigned cases in IRS's inventory management system, the majority of cases group managers had selected and assigned to revenue officers were accelerated high- and high-priority cases (see table 1).¹⁷ Likewise the majority of unassigned cases were medium- and low-priority cases. Although IRS officials did not have historical data readily available to analyze and confirm, they agreed that this mix of cases that we observed on March 10, 2016, is likely typical as the case selection process is geared toward selecting higher priority cases.

¹⁷The data were only available as a snapshot because, according to IRS officials, ENTITY is the only source for data on the priority level of each case and the data are updated frequently and not stored. To assess data variance over time, we compared these data to snapshot data more than 2 months later—May 25, 2016—and observed no change greater than 10 percent. See appendix I for more details on our methodology.

Table 1: Snapshot of Field Collection Cases by Priority Level as of March 10, 2016

Case priority level	Assigned cases		Unassigned cases	
	Number of cases	Percent of assigned cases	Number of cases	Percent of unassigned Cases
Accelerated high	18,652	12	6,183	1
High	102,925	68	353,402	33
Medium	20,370	14	519,778	48
Low	8,881	6	200,559	19
Total	150,828	100^a	1,079,922	100^a

Source: GAO analysis of Internal Revenue Service Field Collection inventory data on March 10, 2016. | GAO-16-787

^aPercentages may not add to 100 due to rounding.

Weaknesses in Field Collection Case Selection Processes and Procedures Impact Their Ability to Support the Collection Program’s Mission

The primary weakness we identified in our analysis of Field Collection case selection processes is a lack of clearly defined and measurable objectives that support the collection program’s mission. According to federal internal control standards, objectives defined in clear and measurable terms are a foundation for improving accountability and providing necessary assurance that a program’s mission will be achieved. The lack of clearly defined and communicated objectives also negatively impacts other aspects of Field Collection case selection processes that we believe are most relevant to assuring mission achievement. Specifically, the lack of clearly defined objectives directly impacts IRS’s ability to effectively measure Field Collection performance, assess risks to the achievement of objectives, and assess the continued effectiveness of automated processes. Finally, we identified the lack of adequate procedures to guide group managers’ use of judgment in selecting cases. These deficiencies increase the risk that Field Collection case selections may not contribute to the program’s mission as well as they otherwise could.

Field Collection Has Not Clearly Defined and Communicated Program and Case Selection Objectives, including Fairness

Having program objectives clearly defined in measurable terms is a foundation that allows managers to take steps to assure a program achieves its mission, according to federal internal control standards. This includes selecting appropriate methods to communicate internally the necessary quality information to achieve program objectives.

IRS guides Field Collection employees through a number of different channels, including: the Internal Revenue Manual (IRM), which is IRS’s official compendium of personnel guidance; annual program letters; and

occasional memos and e-mails. However, none of the communications we reviewed clearly defined the collection program or case selection objectives. For example, the IRM does not state the objectives of the Field Collection program or what role case selection plays in supporting achievement of those objectives. Similarly, although annual collection program letters to staff stated the program mission and listed distinct activities and case types to focus on in the fiscal year grouped under IRS strategic goals, they did not present clearly defined program or case selection objectives sufficient for purposes of internal control. The objectives are unclear in part because the terms are so general that they do not enable management to assess risks, establish control procedures, or link to related performance measures. An August 2013 email from the Director of Field Collection stated that group managers should select cases so that the mix of assigned cases mirrors what is available in the inventory.¹⁸ This guidance suggests a program objective but neither the e-mail nor any other guidance identifies it as such.

The only IRS communication we obtained that identified program and case selection objectives was a document IRS provided to us in March 2016. According to IRS officials, the Collection program developed the document in response to prior recommendations we made in reviewing other aspects of collection case selection processes.¹⁹ However, as shown in table 2, our analysis of the document shows that it does not fully document and communicate program objectives, as recommended by federal internal control standards.

¹⁸For example, the guidance states that if the group's high-risk queue consists of 60 percent business taxpayers and 40 percent individual taxpayers, and 25 percent delinquent returns and 75 percent balance due or balance due/delinquent return combination cases, then the group managers should—to the extent possible—select cases so that cases assigned to revenue officers reflect the same percentages, i.e. 60/40 business/individual and 25/75 delinquent return/balanced due or combination cases. Since this guidance was emailed, Collection has discontinued use of the term “risk” in its case prioritization scheme.

¹⁹In [GAO-15-647](#) and [GAO-15-744](#) we recommended that IRS establish, document, and implement clear objectives for the collection program, ACS, and enterprise-wide case categorization and routing processes.

Table 2: GAO’s Assessment of the IRS Collection Program’s Documentation of Program and Case Selection Objectives

Applicable Internal Control Standard	IRS Document Statement or Characteristic	GAO Assessment of Objectives
Management defines objectives in specific and measurable terms fully and clearly set forth to enable the design and implementation of internal control for related risks and assessments of the effectiveness of controls in addressing risks and performance toward achieving objectives over time.	<p>The program objectives are to collect delinquent taxes, secure delinquent returns, and promote future compliance of filing and paying requirements.</p> <p>For fiscal year 2016, the program and enterprise case selection processes objectives are to (1) focus on the IRS strategic “themes” of preemption (preventive outreach and pre-filing error resolution) and maximum enforcement results (restructured compliance activities and improved case work environment), and (2) focus on three types of collection cases (to include ACS and Field Collection).^a</p>	<p>The terms restate elements of the program mission which accurately reflect the program’s basic functions and strategic goal. However, they are not specific enough to allow for an assessment of their achievement as an outcome in a clear and measurable way. For example, it is unclear how IRS would measure the promotion of future compliance.</p> <p>In the same document as the objectives discussed above, a different set of objectives are stated. Further the terms are not sufficient for purposes of internal control, such as to enable assessments of performance toward achieving objectives over time, as the objectives are for only a certain period and state IRS-level goals and only three case types.</p>
Internal communication methods are appropriate, including consideration of the audience, nature and purpose of the information, and accessibility of the information when needed to guide decision-making.	The document is undated with no information on how it is to be distributed and used. No management signature or other approval is provided to indicate that it is a management directive.	Unlike official program guidance such as found in the Internal Revenue Manual, the document lacks clear indication of its date, authority, and distribution methods and how its information is to be used. Without this information, IRS does not have sufficient assurance that the objectives and related information will be communicated, appropriately available, and used for internal control.

Source: GAO analysis of Internal Revenue Service information | GAO-16-787

^aThe 3 case types are (1) balance due cases of over \$100,000, (2) Form 941 and Form 944 balance due cases, and (3) federal tax deposit alerts.

The lack of clear and consistently communicated objectives was also evident in our focus group discussions with Field Collection managers. We asked managers to describe the objectives in choosing which case to assign a given revenue officer. Participants provided a range of responses. For example, many participants identified an objective of assigning revenue officers a mix of cases that reflects the current inventory. IRS officials explained that the mix of cases refers to the ratios between cases where the taxpayer has a balance due versus those that have not filed a tax return. This case selection objective can also mean balancing the ratio of individual and business taxpayer cases so that the mix of assigned cases mirrors what is available for assignment. This principle reflects the guidance provided in the August 2013 email from the Director of Field Collection.

Focus Group participants also described productivity, or resource use, as an objective. For example, one participant said, “I look at cases that are going to be more productive rather than assigning old, inactive cases. The more productive cases are those cases that have come to Field Collection more recently or have more recent [collection assessments or unfiled returns]. The older cases are stale.” In contrast, several focus group participants said that the program’s automated prioritization system sometimes gives higher priority levels to cases that are older and may not be collectable, such as cases that have been assigned to ACS for a long time and have not been resolved. Some participants also stated that balancing the revenue officer’s workload was an objective. According to these participants, this involves looking at the number and complexity of the current assigned workload of a given revenue officer to ensure that the next case assigned does not overburden the officer.

In a March 2016 email to staff, the Director of Collection defined fairness in the program as having three components: (1) fairness to the taxpaying public by pursuing those who fail to voluntarily comply, (2) an equitable process to select cases expected to best promote voluntary compliance and other apparent Collection goals or objectives, and (3) respect and adherence to policies and procedures that safeguard relevant taxpayer rights in the collection process. This effort to define fairness came in response to recommendations we made in reviewing other aspects of IRS’s collection selection processes.²⁰ While the effort demonstrates progress, our analysis of this email shows that it still does not meet applicable standards for clearly defining objectives and communicating them with methods appropriate for use in internal control, as detailed in table 3.

²⁰In [GAO-15-647](#) and [GAO-15-744](#) we recommended that IRS define key terms, including “fairness.”

Table 3: GAO’s Assessment of the IRS Collection Program’s Definition of Fairness

Applicable Internal Control Standard	IRS Definition Statement or Characteristic	GAO Assessment of the Definition
Management defines objectives in specific and measurable terms fully and clearly set forth to enable the design and implementation of internal control for related risks and assessments of the effectiveness of controls in addressing risks and performance toward achieving objectives over time.	According to IRS, “Fairness and integrity are built into the foundation of our case selection process, which is designed to select cases that best promote filing and paying compliance by relying on a combination of tools—such as automated processes, historical data, prioritization mechanisms, data-driven algorithms, employee technical expertise, third-party information, whistleblowers and information provided by taxpayers themselves.”	Acknowledges that fairness in case selection is an aspect of collection program fairness, but does not clearly state that fairness is a program or case selection objective. The terms are not sufficient for purposes of internal control, such as to enable assessments of risks to fairness or design and implementation of controls to assure fairness. Instead the definition asserts that the current case selection process is fair without defining fairness in specific terms that could be measured and linked to related performance measures.
Documentation of controls is evidence that controls are identified, capable of being communicated to those responsible for their performance, and capable of being monitored and evaluated.	<p>“The entire [case selection] process operates under a comprehensive set of checks and balances and safeguards, all aimed at delivering and ensuring a process that is fair by design.”</p> <p>“No one individual can control the collection case selection decision-making process, and we limit involvement to those employees whose duties require their involvement. This process is impartial and applied consistently to each taxpayer case.”</p>	Insufficient for purposes of internal control because references to the selection process are too general. It does not identify the controls or how they assure fairness—such as how they assure impartiality and consistent application—so that their design and operational effectiveness can be monitored and evaluated.
Internal communication methods are appropriate, including consideration of the audience, nature and purpose of the information, and accessibility of the information when needed to guide decision-making.	Sent in an e-mail to IRS Collection staff as of March 15, 2016.	Without communicating in a formal, permanent record, IRS lacks sufficient assurance that the definition and related information will be appropriately available and used for internal control over time.

Source: GAO analysis of Internal Revenue Service information | GAO-16-787

Because of the shortcomings identified in table 3, IRS risks that employees implementing control procedures may not understand how fairness applies to their work. For example, territory and group managers in our focus groups offered a variety of opinions and perspectives of how to assure fairness in case selection. Specifically, when we asked focus group participants what fairness means to them and how they apply fairness in case selection, managers’ responses included:

- avoiding conflicts of interest, such as cases where the group manager or revenue officer has a prior relationship with an individual or business;

-
- selecting cases with consideration of geography, such as to ensure there are no areas where taxpayers are in a “tax free zone;” and
 - diversifying selections by type of business, selecting cases so that the Field Collection program provides broad coverage, cases selected are representative, and no one group of taxpayers is selected more than others.

Our focus group discussions also showed that managers had inconsistent views on the meaning of fairness in case selection and that some may not fully understand how to apply fairness or believe the selection process precludes unfair selection. In half of the group manager focus groups, at least one participant said he did not know what the role of fairness is in case selection or did not consider fairness in assigning cases. Some also said that choosing any case for assignment would be fair because all of the cases represent noncompliance and the automated selection process fairly prioritizes cases for potential selection.

According to IRS officials, they have not clearly defined Field Collection program and case selection objectives and fairness because they believe their efforts to define them in the document and email described above were sufficient. However, without clearly defined and clearly understood objectives aligned to the Field Collection mission, program management lacks reasonable assurance that case selection processes support achievement of IRS’s mission, including applying tax law with integrity and fairness to all.

Lack of Clear Objectives Impacts IRS’s Ability to Assess Performance, Program Risks, and Automated Processes

The lack of clear and consistent objectives also impacts IRS’s ability to measure program performance, assess risks to the program mission, and determine whether the automated processes used are still appropriate.

Performance Measures

We found that the Field Collection program tracks some case assignment and closure data. Specifically, Field Collection management compares open case inventory to a portion of the case inventory awaiting assignment. IRS officials, including managers in all eight of our focus groups, noted that they use case mix data to monitor or adjust case selections on a monthly basis to achieve this balance. Our analysis of Field Collection case data suggests that, overall at the national level, the program’s mix of assigned cases is aligned—to some degree—with the

available inventory by noncompliance type and taxpayer type, as shown in table 4.²¹

Table 4: Snapshot Data as of March 10, 2016 Comparing Certain Characteristics of Assigned and Unassigned Cases

Component		Assigned Cases		High Priority Unassigned Cases		
		Number of Cases	Percent of Cases	Number of Cases	Percent of Cases	Difference in Percentages
Noncompliance type^a	Balance due and combo ^b	120,398	80	268,408	76	(4)
	Delinquent return	16,169	11	84,675	24	13
Taxpayer Type	Individual	71,516	47	137,784	39	(8)
	Business	79,312	53	215,618	61	8

Source: GAO analysis of Internal Revenue Service Field Collection inventory data on March 10, 2016. | GAO-16-787

^aThe percentages may not add to 100 because the data exclude noncompliance types not within the scope of our review.

^bCombo cases are those involving taxpayers who have balances due and one or more delinquent returns.

However, because the Field Collection program has not yet established clearly defined objectives and does not have related performance measures it lacks a way to measure program performance effectively over time. Federal internal control standards state that measurable objectives allow management to assess program performance in achieving them. For example, if one of Field Collection’s objectives was to achieve fairness and it defined fairness to include ensuring broad coverage of the taxpayer population in collection status, then the Field Collection program would need to establish measures to assess its achievement of this objective. Similarly, if a case selection objective was to assign them so that cases assigned to revenue officers reflect the Field Collection group inventory, then IRS would need to clearly link this objective to related performance measures to which staff were held accountable. We identified a number of potential data elements in the case selection system that could be helpful to IRS in developing such performance measures, as shown in table 5.

²¹Because of system limitations, only snapshot data were available. To assess data variance over time, we compared these data to snapshot data more than 2 months later—May 25, 2016—and observed no change greater than 10 percent. See appendix I for more details on our methodology.

Table 5: Examples of Data Elements that Could Support Potential Performance Measures

Data element	Potential performance measure
Case age	Timeliness in taking collection action
Balance due	Greatest potential collectible revenue
Priority level	Address management priorities
Zip code	Geographic coverage
Case type and taxpayer type	Coverage of noncompliance and taxpayer types

Source: GAO analysis of Internal Revenue Service Field Collection case inventory data | GAO-16-787.

Program Risks

We found that IRS currently has two approaches for assessing risks within the agency. These approaches are:

- **Internal controls framework.** The procedures in IRM 1.4.2 govern IRS’s processes for monitoring and improving internal controls, which include identifying and mitigating risks. Managers are expected to understand the risks associated with their operations and ensure that controls are in place and operating properly to mitigate those risks.
- **Enterprise Risk Management (ERM).** ERM is broader in scope than internal controls, focusing on service-wide risks. ERM is intended to help the service in setting strategy to consider risk and how much risk the service is willing to accept. IRS implemented ERM in February 2014 to alert IRS management to IRS-wide risks and to serve as an early-warning system to identify emerging challenges and address them before they affect operations.

However, in order to use both of these approaches effectively to identify, analyze, and manage risk, IRS needs to have clearly defined, measurable objectives. Federal internal control standards state that effectively managing a program to achieve its mission involves comprehensively considering and assessing potential risks in the program’s internal and external operating environments and establishing risk tolerances (the acceptable level of variation in performance relative to the achievement of objectives). Such tolerances are often stated in terms of performance measures, which allow performance assessment toward achieving objectives. Lacking clearly defined and associated performance measures therefore hinders the Field Collection program’s ability to effectively assess, identify, and address risks to the achievement of its mission. Without clearly defined objectives, risks to achieving those objectives cannot be identified and analyzed, nor can risk tolerances be determined. According to IRS officials, the Field Collection program has

not assessed risks posed by case selection processes because selection processes are well designed. However, unless Field Collection management identifies and understands the significance of the risks to achieving identified objectives, IRS lacks sufficient assurance that the program's case selection processes support achievement of objectives and respond to the identified risks within acceptable tolerances.

Automated Processes

The Field Collection program's automated prioritization and decision support systems are control procedures that are intended to help guide staff to reduce risks in making decisions. For example, the priority levels may help guide group managers to generally select the types of cases management considers higher priority, such as those that could yield more revenue or other positive compliance results, which potentially reduces the risk of using resources inefficiently. However, because Field Collection lacks program and case selection objectives, it is not clear what objectives the automated processes support or which specific risks they are intended to address. According to federal internal control standards, periodic reviews of controls assure procedures continue to work as intended. Monitoring internal control design and effectiveness, and revising control procedures as needed provides sufficient evidence that the controls continue to be effective in addressing risks (which can change over time) and support achievement of program objectives.

Although IRS occasionally makes and documents ad hoc changes to these automated processes to improve results, Field Collection lacks documented procedures to periodically review automated case selection policies, procedures, and related activities, such as the case characteristics and thresholds used to classify cases by priority level.²² IRS established the queue priority categories in 2000 and modified them in 2001, but did not have available documentation of periodic assessments to assure they continued to be effective in the intervening 15 years. According to IRS officials, Field Collection lacks documented procedures for periodic assessments because selection processes are well designed. However, without periodic reviews IRS lacks reasonable

²²An example of a recent ad hoc change is when, according to Field Collection officials, managers reviewed reports, detected anomalies, and raised questions to higher management about available work volume and assignment rationale for FTD alerts. As a result, by March, 2016, the Field Collection program made system changes to filter less-productive alerts. According to officials, Field Collection is also using other feedback managers provided to further evaluate inventory anomalies in particular locations.

assurance that the case selection processes are still effective in working toward achieving the program’s mission, including fairness to all taxpayers.

The Field Collection Program Has Not Developed and Communicated Procedures to Guide the Use of Judgment in Case Selection Decisions

Management is responsible for establishing operating procedures and communicating them to staff to ensure they are followed so that objectives are achieved. Establishing and communicating guidance—such as documenting procedures—provides necessary assurance that the staff responsible for implementing procedures understand and apply them to effectively achieve program objectives. The Field Collection program has established and communicated operating procedures to guide automated aspects of case selection. However, Field Collection has provided insufficient guidance to group managers on the use of professional judgment when manually selecting cases.

As we noted earlier, we learned about the judgment group managers exercise in selecting cases by talking with Field Collection officials. For example, during the focus groups, managers described how professional judgment factors into the case selection process. Some group managers said they may choose to select a given case because of its geographic proximity to other cases assigned to the revenue officer. Similarly, several group managers discussed how they used professional judgment based on previous experience to assess a case’s potential productivity for resulting in collection. This is consistent with the findings of a September 2014 report from the Treasury Inspector General for Tax Administration (TIGTA).²³

²³Treasury Inspector General for Tax Administration, *Field Collection Could Work Cases with Better Collection Potential*, (Reference number: 2014-30-068, Sept. 12, 2014 (Washington, D.C.). TIGTA found that some group managers were supplementing the workload selection system with their experience by identifying cases for which the taxpayer has the ability to pay. According to TIGTA, some group managers sometimes skipped the case selection system’s range of high-priority cases because they were often older cases with very low collection potential. The report also noted that the ENTITY system does not allow management to determine whether the high-priority cases were ever assigned to be worked or determine the results of the case closures because, according to Collection management, the ENTITY system is not a historical database and is not able to determine or accurately recreate inventory for a point in the past because each record is a snapshot of that case in real time. TIGTA recommended that IRS track, monitor, and measure the productivity of the cases selected for assignment in order to improve the selection of cases. IRS generally agreed with the recommendation and said it would review the collection program’s strategy for employing resources.

Although group managers use professional judgment when selecting cases for assignment—resulting in the commitment of revenue officer resources and some cases being selected over others—IRS has limited guidance on how to exercise such judgment. IRS’s official guidance—the Internal Revenue Manual (IRM)—does not guide group managers on how to exercise judgment, such as by listing the factors that ought to be taken into account to help ensure that Field Collection program and case selection objectives are achieved. The only place the IRM acknowledges professional judgment is in a note that states, “There are many considerations when assigning work such as: risk level, case grade, current inventory, geographical issues, etc.”²⁴ The only other program-wide guidance we identified was the August 2013 email from the Director of Field Collection stating that cases should be selected so that the mix of assigned cases mirrors what is available in the queue.

According to IRS officials, Field Collection has not developed and documented guidance for how group managers are to exercise professional judgment in case selection because they consider current procedures sufficient, such as relying on group managers to understand local conditions, relying on their previous experience as revenue officers or gaining necessary experience on the job. However, the use of professional judgment without sufficient guidance presents risks and results in Field Collection management not having sufficient assurance that the case selection decisions group managers make support achievement of the program’s mission of applying the tax law with integrity and fairness to all.

Conclusions

The Field Collection program’s automated systems and the decisions made by group managers determine if some collection cases are pursued sooner, later, or at all. Case selections can affect federal spending, revenue collected, and taxpayer confidence in the tax system’s fairness, which can affect overall voluntary compliance. Therefore, it is important that the Field Collection program select and pursue collection cases that are most likely to produce results in support of IRS’s mission, including applying tax laws with integrity and fairness to all. Without clearly defined and measurable objectives the Field Collection program cannot know, or

²⁴IRM 1.4.50.10. Since this guidance was published in September 2014, Collection has discontinued use of the term “risk” in its case prioritization scheme.

provide taxpayers assurance that, its case selection procedures are effectively supporting its mission. Further, without objectives and other controls IRS will not be able to monitor performance; identify, assess, and manage risks; or ensure that its automated process are still effective. Moreover, while the use of professional judgment is to be expected in the selection of cases for assignment, without guidance for managers, IRS will not have assurance that selections are being made consistently across its regional offices.

Recommendations for Executive Action

To ensure that Field Collection program case selection processes support IRS's and the Collection program's mission, including applying tax laws with integrity and fairness to all, we recommend that the Commissioner of Internal Revenue take the following five actions.

- Develop, document, and communicate Field Collection program and case selection objectives, including the role of fairness, in clear and measurable terms sufficient for use in internal control.
- Develop, document, and implement performance measures clearly linked to the Field Collection program and case selection objectives.
- Incorporate program and case selection objectives into existing risk management systems or use other approaches to identify and analyze potential risks to achieving those objectives so that Field Collection can establish risk tolerances and appropriate control procedures to address risks.
- Develop, document, and communicate control procedures guidance for group managers to exercise professional judgment in the Field Collection program case selection process to achieve fairness and other program and collection case selection objectives.
- Develop, document, and implement procedures to periodically monitor and assess the design and operational effectiveness of both automated and manual control procedures for collection case selection to assure their continued effectiveness in achieving program objectives.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for review and comment. The Deputy Commissioner for Service and Enforcement provided written comments on August 25, 2016, which are reprinted in appendix II. IRS agreed with our recommendations and

described actions it plans to take to address each of them. IRS stated that it appreciates GAO's support and guidance as it continues to seek opportunities to improve Field Collection case selection controls and case selection throughout IRS.

IRS states that our report does not identify any instances where the selection of a case was considered inappropriate or unfair. However, as described in our scope and methodology, we did not design our study to look for cases of inappropriate selection but rather to assess the internal controls that help safeguard the case selection processes. By evaluating the Field Collection program's internal control framework for selection, we were able to determine whether IRS has processes in place that provide reasonable assurance of fair case selection.

IRS outlines planned actions to address each of our recommendations. However, it is not clear that these actions will be fully responsive to the first recommendation that IRS develop, document, and communicate Field Collection program and case selection objectives, including the role of fairness, in clear and measurable terms. IRS states that the Small Business/Self-Employed Division (SB/SE) will develop fiscal year 2017 program objectives that align with the mission of SB/SE and that the Collection program will develop and document specific Field Collection and case selection activities that will support SB/SE objectives. Our concern is that it is not clear how these efforts will address our recommendation to establish Field Collection (not division-level) program and case selection objectives. As described in this report, listing distinct activities or case types to focus on in a fiscal year does not meet the internal control standard of clearly defining and communicating program objectives in specific and measurable terms.

Since it is not clear that the actions IRS described will result in Field Collection program and case selection objectives sufficient for internal control purposes, IRS's ability to address our related recommendations to establish performance measures, assess program risks, and monitor control procedure effectiveness may be limited. Clearly defining objectives is the foundation for effective implementation of internal control standards, including assurance that program operations effectively address risks to program objectives and support the achievement of objectives over time.

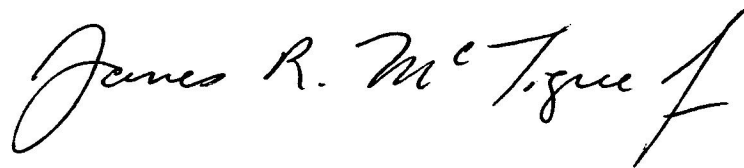
In response to our recommendation to develop, document, and communicate control procedures guidance for Field Collection group managers to exercise professional judgement in case selection, IRS

stated they would review current procedures and guidance and make changes if necessary. Given that we found little documented guidance on the appropriate use of professional judgement, IRS lacks sufficient assurance that case selections support achievement of the program's mission of applying the tax law with integrity and fairness to all.

IRS provided technical comments, which we incorporated as appropriate.

We are sending copies of this report to the Chairmen and Ranking Members of other Senate and House committees and subcommittees that have appropriation, authorization, and oversight responsibilities for IRS. We will also send copies of the report to the Secretary of the Treasury, Commissioner of Internal Revenue, and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-9110 or mctiguej@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix III.



James R. McTigue, Jr.
Director, Tax Issues
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

Our objectives were to (1) describe the Field Collection program's processes (automated and manual) for prioritizing and selecting cases and (2) assess how well Field Collection case selection processes support the collection program's mission, including applying tax laws "with integrity and fairness to all."

To describe the case selection processes, we reviewed program documents and interviewed knowledgeable IRS officials, including officials in the Small Business and Self-Employed Division Collection and Field Collection offices. Our document review included guidance in the Internal Revenue Manual (IRM) and automated system manuals. Our analysis included both automated and manual processes that may involve IRS staff. We analyzed these processes to outline and graphically depict systems and processes IRS uses to prioritize and select cases.

To provide information on the assigned and unassigned case inventory, we analyzed data from IRS Field Collection's main inventory management and case selection information system, ENTITY. The data included characteristics such as the dollars due on selectable and assigned cases, the age of the cases, and the priority levels of the cases as determined in the prioritization process. These data describe a one-time snapshot of IRS Field Collection case inventory characteristics on March 10, 2016. The data were only available as a snapshot because, according to IRS officials, ENTITY is the only source for data on the priority level of each case and the data on priority levels are updated frequently and are not stored.

To assess the reliability of the ENTITY March 10, 2016, snapshot data we present in the report tables, we interviewed knowledgeable IRS officials and manually tested the data for missing data, outliers, or obvious errors. We also reviewed relevant documentation on management reports and case routing data. In addition, we received another snapshot of the case inventories for May 25, 2016, and compared the data to the March 10 snapshot. We analyzed the data to determine if it changed significantly between the two points in time—which, for the purposes of our analysis, we determined would be a greater than 10 percent change—and found no significant changes. We found the data sufficiently reliable for the analysis that we conducted in this review.

To evaluate how well the case selection processes support program goals, we compared the selection process and procedures to selected standards in Standards for Internal Control in the Federal Government, to include the standard that managers define program objectives, assess

risks to the objectives, and design controls to support the achievement of the objectives and address the risks.¹ We selected the standards by assessing which are among the most relevant to ensuring the selection processes support mission achievement given our objectives and the program context. These standards include

- to define program objectives in clear and measurable terms, which is an internal control foundation for other selected standards to assess risks and establish risk tolerances;
- to design and implement control procedures to guide operations and address risks; and
- to establish performance measures and procedures for assessing control procedures to assess program performance in achieving objectives and ensure that controls effectively address risks and support achievement of objectives over time.

Our review of the design of controls included the IRM and other Field Collection program documents that we used to describe the case selection process in objective one.

We conducted eight focus groups with a non-generalizable, nation-wide random sample of IRS Field Collection managers—two focus groups with territory managers and six with group managers—to collect evidence on the implementation of the case selection process. We received a list of all Field Collection group and territory managers from IRS. To ensure that managers selected had sufficient experience in their respective positions to actively contribute to the focus groups, we removed managers that were “acting” or had less than two years of experience in their position. We arranged the list of managers in a random order. Managers were assigned a focus group date and time in order of their random selection, controlling for their time zones, and were given the option to participate in the focus group or not. 43 of the 46 group managers that agreed to participate in the focus groups actually did; all 16 territory managers participated. All of the focus groups were conducted by phone in the week of March 28, 2016.

We asked all eight focus groups questions about internal controls in the Field Collection case selection process, including the program objectives

¹GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 2014).

of the case selection process and the case characteristics managers consider when making case selections and assignments. We documented the responses from the focus group participants and categorized the responses into themes. We analyzed the themes for their frequency and pervasiveness through the focus groups. We looked for patterns or trends across all eight focus groups and for differences between the group and territory manager focus groups.

We conducted this performance audit from August 2015 to September 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Commissioner of Internal Revenue



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

August 25, 2016

James R. McTigue, Jr.
Director, Strategic Issues
Strategic Issues Team
U.S. Government Accountability Office
Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to comment on the draft report titled, *TAX DEBT COLLECTION IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection (GAO-16-787)*. Insuring the integrity of our case selection process continues to be a high priority for the IRS. As described in the draft report, Field Collection utilizes automated processes to prioritize cases to be potentially selected for in-person contact to resolve a tax collection issue. No individual employee can select a case for audit. Collection cases are identified and routed systemically via the automated Inventory Delivery System (IDS). Group managers do exercise judgment when manually deciding which cases automatically selected should be assigned to specific revenue officers. Management's only discretion is the assignment of the identified next best case to employees, by geography and the employee's grade level. This is done in consideration of seven Collection priority areas, as reported, with the related goals for these priority areas.

As you note, a major challenge for the agency is the negative impact of budget cuts over the past six years, which has led to a 50% decline in field collection staff. The direct result of this cutback is that we are unable to pursue and close cases that deserve attention, thereby undermining the fairness of the overall tax collection system.

While the foundation for current Collection case selection processes was designed on extensive historical experience and is quite mature, we agree with the importance of continuously improving performance and the need to conduct periodic evaluations of our automated and manual control procedures for case selection. We have conducted several projects since its initial design in 2001 to evaluate programming efficiencies, selection criteria, and completeness of manual procedures. In Fiscal Years (FY) 2013 and 2014, we completed an analysis of case routing and selection criteria to improve the process. This led to the incorporation of predictive model outcomes in the ENTITY Case Management System to identify cases that were predicted to be productive, within established business priorities.

2

The ENTITY System presents the next best case available for assignment based on established business priorities and collection potential. Managers use ENTITY to assign priority cases to revenue officers while exercising some judgment to accommodate local factors that cannot be automated. These factors include variables such as group and revenue officer geographical coverage, current workload demands, staffing levels, related case assignments, and revenue officer experience. While the system routes and prioritizes inventory for selection, group managers must exercise some judgment in selecting inventory that also fits within the individual group constraints. For example, reduced staffing may require the manager to place or maintain work in the queue until resources are available for assignment.

Field Collection managers assign cases after numerous systemic rules are applied and they evaluate the local conditions. For cases requiring revenue officer involvement, group managers assign cases based on priority levels subject to geography and grade level of available staff. The Integrated Collection System (ICS) and Integrated Data Retrieval System (IDRS) maintain a strong audit trail so there is a record of all case assignments and access to these cases. Reports show Field Collection inventory is comprised overwhelmingly of high priority assignments in accordance with these established priorities, a strong indication group managers follow this assignment plan. Territory managers and Area Directors also conduct case reviews to assure conformance with the process and set priorities. They also review case assignments to revenue officers during their reviews. Throughout the collection process, tax examiners, collection representatives, and revenue officers work with taxpayers to resolve cases in a manner that both protects taxpayer rights and protects the public interest.

In Collection, the concept of fairness has both a collective and individual component. As noted in our policy statements and collecting principles, the public trust requires us to ensure that all taxpayers promptly file their returns and pay the proper amount of tax. Accordingly, we take into account the responsibilities and obligations that all taxpayers share, and we pursue those individuals and businesses who fail to fully pay or file their tax returns, to promote a fair and just system. And we do so while taking into account the individual ability of each taxpayer to meet his or her responsibilities.

Defining fairness for taxpayers and tax administration in the collection process includes three important components to the fairness aspect of collection case selection: 1) Fairness to the taxpaying public by pursuing those who fail to voluntarily comply or otherwise meet their tax obligations; 2) An equitable process that selects balance due and nonfiler cases expected to best promote voluntary compliance, protect the public interest, and produce the greatest revenue yield, with current tax collections given priority; and 3) Fairness to individual taxpayers by respecting and adhering to their rights.

To ensure fairness to the taxpaying public, we take into account the responsibilities and obligations that all taxpayers share, and pursue those individuals and businesses who don't comply with their tax obligations. In this way, we're being fair to those who are compliant and that, in turn, helps promote public confidence in our tax system for all taxpayers. To ensure an equitable process for all taxpayers, fairness and integrity are built into the foundation of our case selection process, which is designed to select cases that best promote filing and paying compliance by relying on a combination of tools, such as automated processes, historical data, prioritization mechanisms, data-driven algorithms, employee technical expertise, third-party information, whistleblowers and information provided by taxpayers themselves. The entire process operates under a comprehensive set of checks and balances and safeguards, all aimed at delivering and ensuring a process that is fair by design. No one individual can control the collection case selection decision-making process, and we limit involvement to those employees whose duties require their involvement. This process is impartial and applied consistently to each taxpayer case. To ensure fairness to each taxpayer whose case is selected, our employees work with a focus on taxpayer rights, a responsibility that is a priority for all IRS employees in their daily work. These taxpayer rights are embodied in the Taxpayer Bill of Rights that outlines the ten fundamental rights taxpayers have when working with the IRS. Taxpayers may administratively appeal most IRS decisions, including enforcement actions such as seizures, notices of federal tax lien, and notices of levy. The Office of Appeals, an independent and impartial function within IRS, will contact the taxpayer, hear the case, and decide whether to sustain the enforcement decision or determine an alternative resolution. The law also provides that taxpayers can petition the federal courts for further review of many Appeals' decisions. Taxpayers may also seek assistance from the Taxpayer Advocate Service.

We note that, while your report posits a hypothetical risk to fair case selection from the lack of documented objectives and internal control deficiencies, your report did not identify any instances where the selection of a case was considered inappropriate or unfair. As described in the response, the internal controls in the Field Collection program are extensive to reflect the sensitive nature of this responsibility and the importance of discharging this responsibility in a fair and equitable manner.

As your report noted, in 2016, we began to address some of the GAO recommendations arising from the earlier collection workload selection audits, including the development of program objectives including the role of fairness. We appreciate the GAO's thorough review and comments on our efforts. For FY 2017, we are continuing this work through the development and documentation of program objectives which clearly align with the SB/SE and Collection mission. These objectives will be designed to be clear and measurable and will be formally communicated to all Field Collection employees.

We appreciate GAO's continued support and guidance as we work to improve our collection controls. We continue to seek opportunities to improve case selection

4

throughout the organization. We continue to conduct quality reviews, operational reviews, and headquarters program reviews to identify risks and to ensure cases are being assigned appropriately.

Responses to GAO's specific recommendations are enclosed. If you have questions, please contact me, or a member of your staff may contact Karen Schiller, Commissioner, Small Business/Self-Employed Division at (202) 317-0600.

Sincerely,


John M. Dalrymple
Deputy Commissioner for Services and Enforcement

Enclosure

Enclosure

TAX DEBT COLLECTION: IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection

Recommendations for Executive Action:

To ensure that Field Collection program case selection processes support IRS' and the Collection program's mission, including applying tax laws with integrity and fairness to all, we recommend that the Commissioner of Internal Revenue take the following five actions.

Recommendation 1:

Develop, document, and communicate Field Collection program and case selection objectives, including the role of fairness, in clear and measurable terms sufficient for use in internal control.

Comment:

SB/SE will develop FY 17 program objectives and strategies that clearly align with the mission of SB/SE. Collection will further develop and document specific activities for Field Collection and case selection that will support these SB/SE objectives and strategies. This will include the role of fairness, which will be documented in clear and measurable terms as it applies to collection activities. The objectives, strategies and activities will be formally communicated to all Field Collection employees.

Recommendation 2:

Develop, document, and implement performance measures clearly linked to the Field Collection program and case selection objectives.

Comment:

SB/SE Field Collection will review its current performance measures linked to case selection objectives and, if needed, develop new measures. Field Collection will continue to develop clear guidance and documentation which will be communicated to appropriate IRS staff.

Recommendation 3:

Incorporate program and case selection objectives into existing risk management systems or use other approaches to identify and analyze potential risks to achieving those objectives so that Field Collection can establish risk tolerances and appropriate control procedures to address risks.

Comment:

SB/SE will develop FY 17 program objectives and strategies that clearly align with the mission of SB/SE, as per recommendation 1. Field Collection will incorporate these new objectives into the existing risk framework.

2

Recommendation 4:

Develop, document, and communicate control procedures guidance for group managers to exercise professional judgment in the Field Collection program case selection process to achieve fairness and other program and collection case selection objectives.

Comment:

SB/SE will review its current procedures and guidance for group managers in Field Collection surrounding the case selection process. If necessary, SB/SE will develop new guidance, clearly document, and communicate the control procedures for group managers to exercise professional judgment in the Field Collection program case selection process.

Recommendation 5:

Develop, document, and implement procedures to periodically monitor and assess the design and operational effectiveness of both automated and manual control procedures for collection case selection to assure their continued effectiveness in achieving program objectives.

Comment:

SB/SE Collection will establish a periodic evaluation and review process to monitor and assess both the automated and manual control procedures for collection case selection into our documentation to ensure continued effectiveness in achieving program objectives.

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue, Jr. (202) 512-9110 or mctiguej@gao.gov.

Staff Acknowledgments

In addition to the above named contact, Brian James (Assistant Director), David Dornisch, Steven Flint, Travis Hill, Ted Hu, Ronald W. Jones, Kay Kuhlman, Donna Miller, Justin Riordan, and Andrew J. Stephens made key contributions to this report.

Appendix IV: Accessible Data

Agency Comment Letter

Text of Appendix II:
Comments from the
Commissioner of Internal
Revenue

Page 1

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

August 25, 2016

James R. McTigue, Jr.

Director, Strategic Issues

Strategic Issues Team

U.S. Government Accountability Office

Washington, DC 20548

Dear Mr. McTigue:

Thank you for the opportunity to comment on the draft report titled, TAX DEBT COLLECTION IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection (GAO-16-787). Insuring the integrity of our case selection process continues to be a high priority for the IRS. As described in the draft report, Field Collection utilizes automated processes to prioritize cases to be potentially selected for in-person contact to resolve a tax collection issue. No individual employee can select a case for audit. Collection cases are identified and routed systemically via the automated Inventory Delivery System (IDS). Group

managers do exercise judgment when manually deciding which cases automatically selected should be assigned to specific revenue officers. Management's only discretion is the assignment of the identified next best case to employees, by geography and the employee's grade level. This is done in consideration of seven Collection priority areas, as reported, with the related goals for these priority areas.

As you note, a major challenge for the agency is the negative impact of budget cuts over the past six years, which has led to a 50% decline in field collection staff. The direct result of this cutback is that we are unable to pursue and close cases that deserve attention, thereby undermining the fairness of the overall tax collection system.

While the foundation for current Collection case selection processes was designed on extensive historical experience and is quite mature, we agree with the importance of continuously improving performance and the need to conduct periodic evaluations of our automated and manual control procedures for case selection. We have conducted several projects since its initial design in 2001 to evaluate programming efficiencies, selection criteria, and completeness of manual procedures. In Fiscal Years (FY) 2013 and 2014, we completed an analysis of case routing and selection criteria to improve the process. This led to the incorporation of predictive model outcomes in the ENTITY Case Management System to identify cases that were predicted to be productive, within established business priorities.

Page 2

The ENTITY System presents the next best case available for assignment based on established business priorities and collection potential. Managers use ENTITY to assign priority cases to revenue officers while exercising some judgment to accommodate local factors that cannot be automated. These factors include variables such as group and revenue officer geographical coverage, current workload demands, staffing levels, related case assignments, and revenue officer experience. While the system routes and prioritizes inventory for selection, group managers must exercise some judgment in selecting inventory that also fits within the individual group constraints. For example, reduced staffing may require the manager to place or maintain work in the queue until resources are available for assignment.

Field Collection managers assign cases after numerous systemic rules are applied and they evaluate the local conditions. For cases requiring revenue officer involvement, group managers assign cases based on priority levels subject to geography and grade level of available staff. The

Integrated Collection System (ICS) and Integrated Data Retrieval System (IDRS) maintain a strong audit trail so there is a record of all case assignments and access to these cases. Reports show Field Collection inventory is comprised overwhelmingly of high priority assignments in accordance with these established priorities, a strong indication group managers follow this assignment plan. Territory managers and Area Directors also conduct case reviews to assure conformance with the process and set priorities. They also review case assignments to revenue officers during their reviews. Throughout the collection process, tax examiners, collection representatives, and revenue officers work with taxpayers to resolve cases in a manner that both protects taxpayer rights and protects the public interest.

In Collection, the concept of fairness has both a collective and individual component. As noted in our policy statements and collecting principles, the public trust requires us to ensure that all taxpayers promptly file their returns and pay the proper amount of tax. Accordingly, we take into account the responsibilities and obligations that all taxpayers share, and we pursue those individuals and businesses who fail to fully pay or file their tax returns, to promote a fair and just system. And we do so while taking into account the individual ability of each taxpayer to meet his or her responsibilities.

Defining fairness for taxpayers and tax administration in the collection process includes three important components to the fairness aspect of collection case selection: 1) Fairness to the taxpaying public by pursuing those who fail to voluntarily comply or otherwise meet their tax obligations; 2) An equitable process that selects balance due and nonfiler cases expected to best promote voluntary compliance, protect the public interest, and produce the greatest revenue yield, with current tax collections given priority; and 3) Fairness to individual taxpayers by respecting and adhering to their rights.

Page 3

To ensure fairness to the taxpaying public, we take into account the responsibilities and obligations that all taxpayers share, and pursue those individuals and businesses who don't comply with their tax obligations. In this way, we're being fair to those who are compliant and that, in turn, helps promote public confidence in our tax system for all taxpayers. To ensure an equitable process for all taxpayers, fairness and integrity are built into the foundation of our case selection process, which is designed to select cases that best promote filing and paying compliance by relying on a combination of tools, such as automated processes, historical data, prioritization mechanisms, data-driven algorithms, employee technical

expertise, third-party information, whistleblowers and information provided by taxpayers themselves. The entire process operates under a comprehensive set of checks and balances and safeguards, all aimed at delivering and ensuring a process that is fair by design. No one individual can control the collection case selection decision-making process, and we limit involvement to those employees whose duties require their involvement. This process is impartial and applied consistently to each taxpayer case. To ensure fairness to each taxpayer whose case is selected, our employees work with a focus on taxpayer rights, a responsibility that is a priority for all IRS employees in their daily work. These taxpayer rights are embodied in the Taxpayer Bill of Rights that outlines the ten fundamental rights taxpayers have when working with the IRS. Taxpayers may administratively appeal most IRS decisions, including enforcement actions such as seizures, notices of federal tax lien, and notices of levy. The Office of Appeals, an independent and impartial function within IRS, will contact the taxpayer, hear the case, and decide whether to sustain the enforcement decision or determine an alternative resolution. The law also provides that taxpayers can petition the federal courts for further review of many Appeals' decisions. Taxpayers may also seek assistance from the Taxpayer Advocate Service.

We note that, while your report posits a hypothetical risk to fair case selection from the lack of documented objectives and internal control deficiencies, your report did not identify any instances where the selection of a case was considered inappropriate or unfair. As described in the response, the internal controls in the Field Collection program are extensive to reflect the sensitive nature of this responsibility and the importance of discharging this responsibility in a fair and equitable manner.

As your report noted, in 2016, we began to address some of the GAO recommendations arising from the earlier collection workload selection audits, including the development of program objectives including the role of fairness. We appreciate the GAO's thorough review and comments on our efforts. For FY 2017, we are continuing this work through the development and documentation of program objectives which clearly align with the SB/SE and Collection mission. These objectives will be designed to be clear and measurable and will be formally communicated to all Field Collection employees.

We appreciate GAO's continued support and guidance as we work to improve our collection controls. We continue to seek opportunities to improve case selection

Page 4

throughout the organization. We continue to conduct quality reviews, operational reviews, and headquarters program reviews to identify risks and to ensure cases are being assigned appropriately.

Responses to GAO's specific recommendations are enclosed. If you have questions, please contact me, or a member of your staff may contact Karen Schiller, Commissioner, Small Business/Self-Employed Division at (202) 317-0600.

Sincerely,

John M. Dalrymple

Deputy Commissioner for Services and Enforcement

Enclosure

Page 5

Enclosure

TAX DEBT COLLECTION: IRS Needs to Define Field Program Objectives and Assess Risks in Case Selection

Recommendations for Executive Action:

To ensure that Field Collection program case selection processes support IRS' and the Collection program's mission, including applying tax laws with integrity and fairness to all, we recommend that the Commissioner of Internal Revenue take the following five actions.

Recommendation 1:

Develop, document, and communicate Field Collection program and case selection objectives, including the role of fairness, in clear and measurable terms sufficient for use in internal control.

Comment:

SB/SE will develop FY 17 program objectives and strategies that clearly align with the mission of SB/SE. Collection will further develop and

document specific activities for Field Collection and case selection that will support these SB/SE objectives and strategies. This will include the role of fairness, which will be documented in clear and measurable terms as it applies to collection activities. The objectives, strategies and activities will be formally communicated to all Field Collection employees.

Recommendation 2:

Develop, document, and implement performance measures clearly linked to the Field Collection program and case selection objectives.

Comment:

SB/SE Field Collection will review its current performance measures linked to case selection objectives and, if needed, develop new measures. Field Collection will continue to develop clear guidance and documentation which will be communicated to appropriate IRS staff.

Recommendation 3:

Incorporate program and case selection objectives into existing risk management systems or use other approaches to identify and analyze potential risks to achieving those objectives so that Field Collection can establish risk tolerances and appropriate control procedures to address risks.

Comment:

SB/SE will develop FY 17 program objectives and strategies that clearly align with the mission of SB/SE, as per recommendation 1. Field Collection will incorporate these new objectives into the existing risk framework.

Recommendation 4:

Develop, document, and communicate control procedures guidance for group managers to exercise professional judgment in the Field Collection program case selection process to achieve fairness and other program and collection case selection objectives.

Comment:

SB/SE will review its current procedures and guidance for group managers in Field Collection surrounding the case selection process. If necessary, SB/SE will develop new guidance, clearly document, and communicate the control procedures for group managers to exercise professional judgment in the Field Collection program case selection process.

Recommendation 5:

Develop, document, and implement procedures to periodically monitor and assess the design and operational effectiveness of both automated and manual control procedures for collection case selection to assure their continued effectiveness in achieving program objectives.

Comment:

SB/SE Collection will establish a periodic evaluation and review process to monitor and assess both the automated and manual control procedures for collection case selection into our documentation to ensure continued effectiveness in achieving program objectives.

Data Tables

Data Table for Figure 2: IRS Field Collection Full-Time Equivalents, fiscal years 2009 through 2015

2009	2010	2011	2012	2013	2014	2015
6,718	7,268	6,812	6,075	5,549	5,207	3,634

Data Table for Figure 3: Case Closures and End of Year Field Collection Inventory, Fiscal Years 2009 through 2015

	2009	2010	2011	2012	2013	2014	2015
Shelved	557,795	964,965	604,891	417,290	806,864	656,141	540,262
Worked by Revenue Officer	864,342	1,025,590	1,118,211	1,042,680	955,009	791,514	729,958
Ending Inventory (Assigned and Unassigned)	3,149,945	2,652,778	3,073,432	3,060,355	2,547,571	2,501,400	2,531,879

Accessible Text for Figure 5: Illustrative Examples of IRS Field Collection Group Manager Case Selection Considerations

Group managers consider case and revenue officer characteristics in evaluating potential case assignments:

- Does the case meet the developmental needs of the revenue officer?
- Would the case provide balance to the revenue officer's workload?
- Is the case appropriate based on revenue officer's grade level and experience?
- Does the case have a higher probability of collection?
- Is the case assignment consistent with Field Collection priority designations?
- Does the case reflect key characteristics of the available cases for assignment?
- Is the case geographically close to other current or potential assigned cases?

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (<http://www.gao.gov>). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to <http://www.gao.gov> and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, <http://www.gao.gov/ordering.htm>.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on [Facebook](#), [Flickr](#), [Twitter](#), and [YouTube](#).
Subscribe to our [RSS Feeds](#) or [E-mail Updates](#). Listen to our [Podcasts](#).
Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: <http://www.gao.gov/fraudnet/fraudnet.htm>

E-mail: fraudnet@gao.gov

Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800 U.S. Government Accountability Office, 441 G Street NW, Room 7149 Washington, DC 20548

Strategic Planning and External Liaison

James-Christian Blockwood, Managing Director, spel@gao.gov, (202) 512-4707 U.S. Government Accountability Office, 441 G Street NW, Room 7814, Washington, DC 20548